

CITY OF NORTH NEWTON
NORTH NEWTON, KANSAS

Special Financial Statements

December 31, 2011

City of North Newton, Kansas

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December 31, 2011

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

City Council
City of North Newton
North Newton, Kansas 67117

We have audited the accompanying financial statements of the City of North Newton, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative financial information has been derived from the City's 2010 financial statements and, in our report dated June 7, 2011, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separated component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component unit, although not reasonably determinable, is presumed to be material.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2011, the changes in its financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Primary Government of the City of North Newton, as of December 31, 2011, and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Knudsen, Monroe & Company LLC

Certified Public Accountants
June 7, 2012

City of North Newton, Kansas

SUMMARY STATEMENT OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

Funds	Unencumbered		Unencumbered		Unencumbered	
	Cash Balance 12-31-10	Receipts	Expenditures	Cash Balance 12-31-11	Encumbrances	Cash Balance 12-31-11
General	\$ 115,261	798,987	808,304	105,944	3,159	109,103
Special Revenue						
Consolidated street and highway	16,457	90,989	63,662	43,784	-	43,784
Equipment reserve	131,437	43,500	20,208	154,729	-	154,729
Capital improvement	226,245	211,170	133,671	303,744	-	303,744
Debt Service						
Bond and interest	22,024	205,353	200,150	27,227	-	27,227
Enterprise						
Water	30,764	332,108	316,179	46,693	3,918	50,611
Sewer	66,091	432,400	411,820	86,671	-	86,671
Solid waste	102,874	68,462	63,725	107,611	-	107,611
Total Primary Government	\$ 711,153	2,182,969	2,017,719	876,403	7,077	883,480
Composition of Cash						
Checking Account-Midland National Bank						\$ 5,663
Money Market Account-Midland National Bank						577,817
Certificate of Deposit - Midland National Bank						300,000
						<u>\$ 883,480</u>

City of North Newton, Kansas

SUMMARY STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General	\$ 885,568	-	885,568	808,304	(77,264)
Special Revenue					
Consolidated street and highway	78,620	-	78,620	63,662	(14,958)
Debt Service					
Bond and interest	210,166	-	210,166	200,150	(10,016)
Enterprise					
Water	386,507	-	386,507	316,179	(70,328)
Sewer	542,084	-	542,084	411,820	(130,264)
Solid waste	<u>66,665</u>	<u>-</u>	<u>66,665</u>	<u>63,725</u>	<u>(2,940)</u>
Expenditures subject to current budget	<u>\$ 2,169,610</u>	<u>-</u>	<u>2,169,610</u>	1,863,840	<u>(305,770)</u>
Add expenditures for unbudgeted funds					
Equipment reserve				20,208	
Capital improvement				<u>133,671</u>	
Total expenditures				<u>\$ 2,017,719</u>	

City of North Newton, Kansas

General Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance
	2010			Over
	Actual	Actual	Budget	(Under)
RECEIPTS				
Ad valorem property tax	\$ 214,064	235,592	240,911	(5,319)
Intangibles tax	45,192	35,903	30,000	5,903
Delinquent tax	459	1,492	-	1,492
Vehicle tax	43,161	36,731	37,144	(413)
Sales tax - County	245,068	258,742	240,000	18,742
Payment in lieu of tax	32,602	38,918	37,620	1,298
Franchise fees	117,661	120,413	117,000	3,413
Interest	8,227	4,318	8,000	(3,682)
Fines, fees, other	44,386	36,878	33,824	3,054
Transfers				
Water fund	20,000	20,000	20,000	-
Sewer fund	-	10,000	10,000	-
	<u>770,820</u>	<u>798,987</u>	<u>774,499</u>	<u>24,488</u>
EXPENDITURES				
General administration	197,789	189,215	220,903	(31,688)
Law enforcement	152,447	162,240	182,115	(19,875)
Fire protection	257,094	309,936	290,000	19,936
Municipal court	30,077	33,831	31,900	1,931
Utility services	19,512	20,104	20,000	104
Transfers				
Capital improvement fund	40,500	9,500	45,500	(36,000)
Equipment reserve fund	7,000	9,500	9,500	-
Consolidated Street and Highway	42,000	42,000	42,000	-
Economic Development Council	6,474	7,057	7,100	(43)
Other	30,389	24,921	36,550	(11,629)
	<u>783,282</u>	<u>808,304</u>	<u>885,568</u>	<u>(77,264)</u>
Receipts over (under) expenditures	(12,462)	(9,317)		
UNENCUMBERED CASH, beginning	<u>127,723</u>	<u>115,261</u>		
UNENCUMBERED CASH, ending	\$ 115,261	105,944		

City of North Newton, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance
	2010	Actual	Budget	Over
	Actual			(Under)
<u>CONSOLIDATED STREET AND HIGHWAY FUND</u>				
RECEIPTS				
Gasoline tax	\$ 43,030	43,989	43,450	539
Transfers				
General fund	42,000	42,000	42,000	-
Sewer fund	-	5,000	5,000	-
	<u>85,030</u>	<u>90,989</u>	<u>90,450</u>	<u>539</u>
EXPENDITURES				
Personal services	27,176	11,215	22,000	(10,785)
Contractual services	16,226	9,933	13,920	(3,987)
Commodities	11,256	12,684	12,200	484
Capital outlay	612	1,330	2,000	(670)
Transfers				
Equipment reserve fund	-	5,000	5,000	-
Capital improvement fund	18,000	23,500	23,500	-
	<u>73,270</u>	<u>63,662</u>	<u>78,620</u>	<u>(14,958)</u>
Receipts over (under) expenditures	11,760	27,327		
UNENCUMBERED CASH, beginning	<u>4,697</u>	<u>16,457</u>		
UNENCUMBERED CASH, ending	<u>\$ 16,457</u>	<u>43,784</u>		

City of North Newton, Kansas

Special Revenue Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance Over (Under)
	2010 Actual	Actual	Budget	
<u>EQUIPMENT RESERVE FUND</u>				
RECEIPTS				
Sale of equipment	\$ 1,200	16,000		
Transfers				
General fund	7,000	9,500		
Water fund	8,000	8,000		
Sewer fund	-	5,000		
Consolidated street and highway fund	-	5,000		
	16,200	43,500		
EXPENDITURES				
Equipment purchases	48,602	20,208	NOT APPLICABLE	
Receipts over (under) expenditures	(32,402)	23,292		
UNENCUMBERED CASH, beginning	163,839	131,437		
UNENCUMBERED CASH, ending	\$ 131,437	154,729		
<u>CAPITAL IMPROVEMENT FUND</u>				
RECEIPTS				
Grants	\$ -	59,170		
Transfers				
General fund	40,500	9,500		
Water fund	52,000	61,000		
Sewer fund	-	58,000		
Consolidated street and highway fund	18,000	23,500		
	110,500	211,170		
EXPENDITURES				
Commodities	210	41,292		
Other capital expenditures	80,906	92,379	NOT APPLICABLE	
	81,116	133,671		
Receipts over (under) expenditures	29,384	77,499		
UNENCUMBERED CASH, beginning	196,861	226,245		
UNENCUMBERED CASH, ending	\$ 226,245	303,744		

City of North Newton, Kansas

Debt Service Fund

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance Over (Under)
	2010 Actual	Actual	Budget	
<u>BOND AND INTEREST FUND</u>				
RECEIPTS				
Ad valorem property tax	\$ 60,824	44,743	45,876	(1,133)
Delinquent tax	119	378	-	378
Vehicle tax	5,009	10,273	10,553	(280)
Special assessments	165,349	141,765	143,138	(1,373)
Transfers				
Sewer fund	914	8,194	7,384	810
	<u>232,215</u>	<u>205,353</u>	<u>206,951</u>	<u>(1,598)</u>
EXPENDITURES				
Principal	145,000	140,000	126,114	13,886
Interest	66,069	60,148	74,034	(13,886)
Commission and fees	4	2	18	(16)
Cash basis reserve	-	-	10,000	(10,000)
	<u>211,073</u>	<u>200,150</u>	<u>210,166</u>	<u>(10,016)</u>
Receipts over (under) expenditures	21,142	5,203		
UNENCUMBERED CASH, beginning	<u>882</u>	<u>22,024</u>		
UNENCUMBERED CASH, ending	<u>\$ 22,024</u>	<u>27,227</u>		

City of North Newton, Kansas

Enterprise Funds

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance
	2010			Over
	Actual	Actual	Budget	(Under)
WATER FUND				
RECEIPTS				
Sales and connection fees	\$ 252,282	332,108	407,985	(75,877)
EXPENDITURES				
Personal services	47,330	64,769	57,200	7,569
Water purchases	65,070	81,623	200,000	(118,377)
Contractual services	14,399	13,638	14,500	(862)
Commodities	4,667	4,811	4,100	711
Capital outlay	6,990	4,739	5,000	(261)
Sales tax and water protection fee	3,276	3,853	4,400	(547)
Wholesale water district	11,240	11,439	11,000	439
KDHE loan	42,307	42,307	42,307	-
Transfers				
Equipment reserve fund	8,000	8,000	8,000	-
Capital improvement fund	52,000	61,000	20,000	41,000
General fund	20,000	20,000	20,000	-
	<u>275,279</u>	<u>316,179</u>	<u>386,507</u>	<u>(70,328)</u>
Receipts over (under) expenditures	(22,997)	15,929		
UNENCUMBERED CASH, beginning	53,761	30,764		
UNENCUMBERED CASH, ending	\$ 30,764	46,693		

City of North Newton, Kansas

Enterprise Funds**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

Year ended December 31, 2011

(With comparative actual amounts for the year ended December 31, 2010)

		2011		Variance
	2010	Actual	Budget	Over
	Actual			(Under)
<u>SEWER FUND</u>				
RECEIPTS				
User fees and other	\$ 321,258	432,400	500,050	(67,650)
EXPENDITURES				
Personal services	48,240	62,154	39,500	22,654
Service purchases	250,005	249,125	445,000	(195,875)
Other contractual	9,691	9,524	11,500	(1,976)
Commodities	2,712	4,823	3,700	1,123
Capital outlay	200	-	-	-
Transfers				
Consolidated street and highway fund	-	5,000	5,000	-
Bond and interest fund	914	8,194	7,384	810
Capital improvement fund	-	58,000	15,000	43,000
Equipment reserve fund	-	5,000	5,000	-
General fund	-	10,000	10,000	-
	311,762	411,820	542,084	(130,264)
Receipts over (under) expenditures	9,496	20,580		
UNENCUMBERED CASH, beginning	56,595	66,091		
UNENCUMBERED CASH, ending	\$ 66,091	86,671		
<u>SOLID WASTE FUND</u>				
RECEIPTS				
User fees	\$ 67,592	68,462	67,000	1,462
EXPENDITURES				
Personal services	1,200	1,660	1,265	395
Contractual services	61,013	61,813	65,000	(3,187)
Commodities	187	252	400	(148)
	62,400	63,725	66,665	(2,940)
Receipts over (under) expenditures	5,192	4,737		
UNENCUMBERED CASH, beginning	97,682	102,874		
UNENCUMBERED CASH, ending	\$ 102,874	107,611		

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of North Newton is a municipal corporation governed by an elected five-member council. These financial statements present the City of North Newton (the primary government) as the only component unit.

In addition to the primary government, the local housing authority, Wheatland Homes, which operates the City's housing projects, qualifies as a component unit of the City. Its financial activity is not, however, included in the accompanying financial statements.

Basis of Accounting

These financial statements are presented on a statutory basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for good and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles (GAAP), encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with GAAP. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

2. FUND DESCRIPTION

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the City for the year 2011:

Governmental Funds

General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources other than special assessments or major capital projects that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Fund--to account for the accumulation of resources for and the payment of interest and principal on general long-term debt and the financing of special assessments that are general obligations of the City.

Proprietary Funds

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
2. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
3. Adoption of the final budget on or before August 25th.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. BUDGETARY INFORMATION (Continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The 2011 budget was not amended.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the cash basis of accounting, modified by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital project funds, and the following special revenue funds:

Equipment Reserve Fund
Capital Improvement Fund

Spending in funds that are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

4. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no investment policy that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. As of December 31, 2011, the City's investments included only bank savings accounts and certificates of deposit with a fair value of \$877,817, which are not subject to investment rating.

Concentration of Credit Risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has not designated peak periods. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the carrying amount of the City's deposits was \$883,480. The bank balance totaled \$920,955. Of the bank balance, \$313,242 was covered by FDIC insurance and the remaining \$607,713 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

5. LONG-TERM DEBT

Changes in the long-term liabilities for the City for the year ended December 31, 2011 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Balance 12-31-10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12-31-11</u>	<u>Interest Paid</u>
General Obligation Bonds:									
Series 1998	4.30-5.00%	09/01/98	\$ 226,000	12/01/13	\$ 45,000	-	15,000	30,000	2,228
Series 2003	4.25-4.80%	02/01/03	320,000	12/01/23	235,000	-	15,000	220,000	10,480
Series 2006	4.05-5.00%	12/01/06	982,000	12/01/26	795,000	-	55,000	740,000	34,410
Series 2009 (refunding)	1.40-3.80%	11/03/09	520,000	12/01/19	460,000	-	55,000	405,000	13,030
					1,535,000	-	140,000	1,395,000	60,148
KDHE revolving loan	3.78%	04/30/04	591,212	08/01/24	456,652	-	25,282	431,370	17,025
Lease purchase agreement	3.00%	04/09/10	100,000	04/01/14	100,000	-	23,903	76,097	3,000
Total Long-Term Debt					<u>\$ 2,091,652</u>	<u>-</u>	<u>189,185</u>	<u>1,902,467</u>	<u>80,173</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. LONG-TERM DEBT (Continued)

Current maturities of long-term debt and interest through maturity are as follows:

	Year ending December 31							
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-2021</u>	<u>2022-Mat.</u>	<u>Total</u>
Principal								
General Obligation Bonds	\$140,000	145,000	130,000	130,000	140,000	435,000	275,000	1,395,000
Revenue Obligation Loans	26,247	27,248	28,288	29,367	30,488	170,802	118,930	431,370
Lease purchase	<u>24,620</u>	<u>25,358</u>	<u>26,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,097</u>
Total principal	<u>190,867</u>	<u>197,606</u>	<u>184,407</u>	<u>159,367</u>	<u>170,488</u>	<u>605,802</u>	<u>393,930</u>	<u>1,902,467</u>
Interest								
General Obligation Bonds	55,165	50,373	45,215	40,603	35,793	111,790	35,280	374,219
Revenue Obligation Loans	14,573	13,664	12,721	11,741	10,725	39,960	7,246	110,630
Lease purchase	<u>2,283</u>	<u>1,544</u>	<u>784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,611</u>
Total interest	<u>72,021</u>	<u>65,581</u>	<u>58,720</u>	<u>52,344</u>	<u>46,518</u>	<u>151,750</u>	<u>42,526</u>	<u>489,460</u>
Total Principal and Interest	<u>\$262,888</u>	<u>263,187</u>	<u>243,127</u>	<u>211,711</u>	<u>217,006</u>	<u>757,552</u>	<u>436,456</u>	<u>2,391,927</u>

6. DEFERRED COMPENSATION PLAN

Employees of the City of North Newton may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the City. In prior years, the City made contributions to the plan for participating employees. Vesting of the portion contributed by the City begins after one year of service with full vesting after five years. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by Lincoln Financial Group and Lord Abbett mutual funds. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts is held by the insurance company and mutual fund until paid or made available to the employees or beneficiaries.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

6. DEFERRED COMPENSATION PLAN (Continued)

The following schedule summarizes activity in the accounts maintained by Lincoln Financial Group during the year ended December 31, 2011:

Balance, December 31, 2010	\$ 575,868
Deposits - Compensation deferred by participants	18,456
Withdrawals	(8,354)
Change in market value	6,806
Costs	(2,985)
Balance, December 31, 2011	<u>\$ 589,791</u>

The following schedule summarizes activity in the accounts maintained by Lord Abbett mutual funds during the year ended December 31, 2011:

Balance, December 31, 2010	\$ 167,157
Deposits - Compensation deferred by participants	9,998
Fees	(395)
Change in market value	(12,720)
Dividends	371
Balance, December 31, 2011	<u>\$ 164,411</u>

The accounts maintained by the Lincoln Financial Group and Lord Abbett mutual fund are not included in the accompanying financial statements of the City.

7. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of North Newton contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 to 6% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute was 7.74% at December 31, 2011. The City's employer contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$34,875, \$32,179 and \$31,167 respectively, equal to the statutory required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

8. COMPENSATED ABSENCES

Full-time employees earn five days of paid vacation upon completion of six months of employment; from one through ten years of service they earn two weeks of paid vacation per year. After ten years of service, employees earn three weeks of paid vacation per year. Unused vacation pay is paid to employees upon termination. Unused vacation time has not been recorded as a liability in the accompanying financial statements.

Full-time employees earn 12 days of paid sick leave in one year of service which can be accumulated to a maximum of 60 days. Unused sick leave at December 31 may be converted to vacation time on a basis of two days sick leave for one day vacation. Unused sick leave is not paid to employees upon termination. Unused sick leave has not been recorded in the accompanying financial statements.

9. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>Transfers To</u>	<u>Transfers From</u>				
	<u>Consolidated</u>				
	<u>General</u>	<u>Street and Highway</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
General	\$ -	-	20,000	10,000	30,000
Capital Improvement	9,500	23,500	61,000	58,000	152,000
Bond and Interest	-	-	-	8,194	8,194
Consolidated Street and Highway	42,000	-	-	5,000	47,000
Equipment Reserve	9,500	5,000	8,000	5,000	27,500
	<u>\$61,000</u>	<u>28,500</u>	<u>89,000</u>	<u>86,194</u>	<u>264,694</u>

10. CONTINGENT LIABILITIES

Public Wholesale Supply District #17

In February, 1997, the City entered into an agreement with the cities of Newton, Halstead, and Sedgwick to organize the Public Wholesale Water Supply District No. 17 (District). The purpose of the District is to secure adequate sources of water for the member cities, to transport and distribute the water to purchasers, and to increase efficiency in providing public water supplies through sharing of facilities and resources. The District began pumping and distributing water to the member cities during 2000.

In order to purchase water rights and to construct facilities necessary for transportation and distribution, the District incurred debt through a loan from the Kansas Rural Water Finance Authority in February, 2000. At December 31, 2011, the District owed approximately \$1,867,178 on this loan. As specified in the organization agreement, should the District terminate or otherwise fail to meet debt service requirements, the member cities are required to tender their pro rata share of the deficiency as determined by the membership percentages stated in the agreement. The City's stated membership percentage is 2.02%.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

10. CONTINGENT LIABILITIES (Continued)

Wastewater Processing Agreement

The City of Newton processes sewage for the City of North Newton. The City is in a disagreement with the City of Newton over the interpretation of what is included in the sewer charges that are owed to Newton for the processing of sewage. This disagreement has gone on since 2009. The amount owed to the City of Newton per Newton's computation is approximately \$320,000 for unpaid sewer charges.

11. DATE OF MANAGEMENT REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2011, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through June 7, 2012, which is the date at which the financial statements were available to be issued.